

From: Ben Herman [<mailto:bherman14@hotmail.com>]

Sent: Thursday, October 15, 2020 8:45 AM

To: Sabrina Charney Hull <SCHARNEYHULL@mynewcastle.org>

Cc: Jeremy Saland <JSALAND@mynewcastle.org>; Ivy Pool <ipool@mynewcastle.org>

Subject: DGEIS FBC Feedback/Question

Hi Sabrina,

Hope you are well. I was reviewing the consultant report that is justification for allowing for taller developments. There is a key assumption in the report that I think should be revisited and potentially revised. The analysis assumes a cap rate of 6% for value which is quite high and off market based on my experience. Do you know if the consultants have any back up for this? For example sales comparables with cap rates?

I'd expect projects like this to trade around a 5% cap rate not 6% which would make the 3 story development feasible from a profit standpoint. The profit would be more than \$10 million, far in excess of the 10% threshold for the 3 story development, in fact it would be over 20%. Even at a 5.5% cap rate the 3 story development would still clear the 10% profitability/return threshold they deem required, generating a profit of >\$5 million. The 3 story – “not feasible” statement is not backed up by the information in the report.

I don't have any comparables handy for this immediate area but I do have some for a Long Island project. They are a few years old but cap rates have decreased since then as interest rates have gone down. Furthermore [New Castle](#) is more desirable than the locations below justifying a lower cap rate here. Just wanted to back up my statement above. If the threshold is 10% profit then no upzoning above 3 stories should be needed if the prevailing cap rate here is 5.5% or less. Lack of economic feasibility is not a reason to allow for higher developments.

As Jeremy and Ivy know I am in the business of financing commercial real estate including providing construction loans, apartment development and refinancing/acquisition loans for apartments,

mixed use projects, industrial projects, and offices nationwide.

Many thanks for your consideration of my feedback in your formulation of the final FBC.

Thanks,

Ben Herman

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Close Ronkonkoma Hub_OM_FINAL LR...



MULTIFAMILY SALE COMPARABLES

As mentioned, there has been very little new construction on Long Island since 1999 (appx. 7,000 units). As such, developments have become available for sale. However, in the last two years there have been four comparable sales that have set new high watermarks for Long Island: West 130 and Metro 303. These two Hempstead assets were developed by Mill Creek Residential Trust in joint ventures with institutional capital partners, and were sold to institutional buyers. These two assets are similar to The Hub at Ronkonkoma; however, they do not have the convenient LIRR access or master development components. These two assets sold for an average price per unit of \$456,305. Including Sayville Commons, the average price per unit for these comparables is 5.21%.

Conservatively, the Sponsor has assumed an exit cap rate of 5.5%, a discount of 29 basis points, compared to these assets' length transactions. Furthermore, The Hub at Ronkonkoma valuation provides a conservative price per square foot, and is justifiable based on the newly constructed quality of the property.

	1	2	3	4	TO
PROPERTY	ENCLAVE AT CHARLES POND	SAYVILLE COMMONS	WEST 130	METRO 303	
Address	1 Charles Pond Drive	400 Adams Way	130 Hempstead Avenue	303 Main Street	
Location	Coram, NY	Sayville, NY	West Hempstead, NY	Hempstead, NY	
Date	Dec-15	Oct-15	Jan-14	Nov-14	
Built	2009	2001	2012/2013	2012	
Units	200	342	150	166	
Sq. Ft.	176,000	n/a	162,238	178,575	
Sale Price	\$50,990,000	\$122,831,120	\$70,250,000	\$73,750,000	
Per Unit	\$254,950	\$359,155	\$468,333	\$444,277	
Per Sq. Ft.	\$290	n/a	\$433	\$413	
Cap Rate	n/a	5.19%	5.19%	5.26%	
Buyer	Inland Group	Lone Star	Bozzuto Group	UBS	
Seller	AvalonBay	Home Properties	Mill Creek Residential Trust & JP Morgan	Mill Creek Residential Trust & AEW Capital Management	

MARKET OVER

